

LEGISLATIVE FISCAL ESTIMATE
ASSEMBLY COMMITTEE SUBSTITUTE FOR
ASSEMBLY, No. 2302
STATE OF NEW JERSEY
210th LEGISLATURE

DATED: JULY 16, 2002

SUMMARY

- Synopsis:** Provides for computation of New Jersey estate tax in accordance with terms of federal estate tax in effect on December 31, 2001.
- Type of Impact:** Averts loss of revenue to General Fund attributable to Federal estate tax law revisions.
- Agencies Affected:** Department of the Treasury; Division of Taxation.

Office of Legislative Services Estimate

Fiscal Impact	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>
State Revenue	\$60,000,000	\$120,000,000	\$180,000,000	\$240,000,000

- ! This legislation effectively holds the State "harmless" for recent changes to the federal tax code. Accordingly, the Office of Legislative Services (OLS) estimate reflects the amount of current collections which will be foregone to the General Fund absent the bill.
- ! State inheritance tax revenues currently consist of collections from both the Transfer Inheritance tax and the New Jersey estate tax.
- ! New Jersey Estate tax revenues currently constitute approximately forty-five percent of total State inheritance tax collections, or roughly \$225 million of the \$500 million anticipated from inheritance taxes in the current fiscal year (FY2002).
- ! Under federal tax law changes, the allowable State credit for any State death taxes paid is reduced by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004 and is fully repealed from 2005 to 2010.
- ! Barring this legislation, by 2005 the New Jersey estate tax will be effectively repealed.

BILL DESCRIPTION

Assembly Committee Substitute for Assembly Bill No. 2302 of 2002 provides that the New Jersey estate tax shall be computed in accordance with the terms of the federal estate tax in effect on December 31, 2001.

Under changes in the federal estate tax enacted in 2001, New Jersey's estate tax will be reduced. This reduction will occur primarily through a four-year phase-out of the federal credit allowed for State inheritance or other legacy taxes paid. Even before the phase-out is completed, the credit will also be reduced for many estates by the extension of full exemption from federal tax to successively larger estates.

This substitute preserves the New Jersey estate tax as it existed up to the point at which the changes in federal law took effect.

FISCAL ANALYSIS

EXECUTIVE BRANCH

None received.

OFFICE OF LEGISLATIVE SERVICES

The OLS notes that under the Economic Growth and Tax Relief Reconciliation Act of 2001 enacted by Congress, the allowable State credit (or "pick-up" provision) under the federal estate tax for any State death taxes paid is reduced by 25 percent in 2002, 50 percent in 2003, 75 percent in 2004 and is fully repealed from 2005 to 2010. Thus, by 2005 State inheritance tax collections, which reflect receipts from both the transfer inheritance tax and the New Jersey estate tax, will include only those revenues derived from the State inheritance tax as the estate or "pick-up" tax will be effectively repealed.

Data obtained from the Division of Revenue indicate that, in FY 2001, estate tax revenues constituted approximately forty-five percent of total annual inheritance tax collections. Accordingly, of the \$500 million in inheritance tax collections anticipated by the Executive (based on its year-end revised estimate) for FY 2002, approximately \$225 million can be attributed to the New Jersey estate tax. Similarly, based on the Executive's revised FY 2003 revenue estimates, which project a total of \$530 million in inheritance tax collections, roughly \$239 million will be due to the estate tax.

Utilizing these estimates, and the federal phase-out provision, the OLS projects that the General Fund will forego approximately \$60 million in FY2003, \$120 million in FY2004; \$180 million in FY2005 and the full \$240 million currently collected by FY 2006 and each year thereafter. However, the precise reduction in collections will be affected by the bill's timing provision and its effective date. Given such factors, the amount foregone in the first year following enactment will likely exceed the 25 percent reduction in the allowable federal credit amount while, all other things being equal, the total amount foregone to the General Fund would remain approximately \$240 million upon full implementation of the federal phase-out provision. (Growth in collections is not assumed in future year estimates, as inheritance tax collections are unpredictable and somewhat volatile from year to year.) With enactment of this legislation, however, the General Fund would effectively be held "harmless" for the changes to the federal tax code.

Section: *Revenue, Finance and Appropriations*

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This fiscal estimate has been prepared pursuant to P.L.1980, c.67.